

Message Text

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ACTION AGR-20

INFO OCT-01 EUR-25 ISO-00 CEA-02 CIAE-00 COME-00 DODE-00

EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-07 PA-04 RSC-01 AID-20 CIEP-02 SS-20 STR-08

TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 FEA-02 OMB-01

DRC-01 /178 W

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R 121139Z MAR 74

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 1577

UNCLAS STOCKHOLM 1055

E.O. 11652 N/A

TAGS: EAGR, ETRD, SW

SUBJECT: INCREASED IMPORT LEVY ON TURKEY PRODUCTS

REF: STATE 32896, FEB 20

1. REF INSTRUCTION ARRIVED JUST PRIOR DEPARTURE AGRICULTURAL ATTACHE FOR WEEK IN FINLAND. EMBASSY THEREFORE DELAYED ACTION UNTIL HIS RETURN.

2. ON MARCH 7, ECONOMIC COUNSELOR AND AGATT CALLED ON UNDER-SECRETARY OF AGRICULTURE IVAN ECKERSTEN AND ON MARCH 8, ON ULF LEVIN, CHIEF OF NORTH AMERICAN SECTION IN MINISTRY OF COMMERCE (JOINT MINISTRY OF FOREIGN AFFAIRS/COMMERCE OFFICE). FOLLOWING IS A COPY OF THE TALKING PAPER FROM WHICH THEY SPOKE:

"WE WISH TO MAKE THE FOLLOWING POINTS WITH RESPECT TO THE INCREASE IN IMPORT TAX FOR COOKED TURKEY AND PARTS WHICH WENT INTO EFFECT ON JANUARY 1, 1974:

"A. THE TAX ON COOKED TURKEY AND PARTS WAS INCREASED 32 PERCENT,
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FROM 6.18 SKR PER KG TO 8.18 SKR PER KG. THIS INCREASE WAS

SHARPLY GREATER THAN THAT ON CHICKEN, WHICH HAD PREVIOUSLY BEEN TAXED AT THE SAME RATE AS TURKEYS, AND IN CONTRAST WITH THE REDUCED TAX ON BEEF AND PORK. THE INCREASE, THEREFORE, ON COOKED TURKEY AND PARTS WAS DISCRIMINATORY IN IMPACT.

"B. SWEDISH TRADE SOURCES HAVE INDICATED THAT THE TAX INCREASE WILL RESULT IN A PRICE FOR US COOKED TURKEY AND PARTS IN SWEDEN WHICH WILL PRACTICALLY ELIMINATE THIS TRADE IN THE COMING MONTHS UNLESS AN ADJUSTMENT IS MADE.

"C. US EXPORTS OF COOKED TURKEY AND PARTS IN 1973 TOTALLED ROUGHLY 300,000 POUNDS VALUED AT \$200,000, A LEVEL LESS THAN ONE-THIRD OF THE VOLUME IN 1969. THIS DECLINING TREND IN TRADE WAS LARGELY CAUSED BY TAX INCREASES WHICH HAVE MORE THAN DOUBLED DURING THIS SAME PERIOD.

"D. WE ARE PARTICULARLY UNHAPPY WITH THESE TRADE DEVELOPMENTS AND THE ROLE OF TAX INCREASES, SINCE OUR GOVERNMENT AND TRADE EXPENDED SUBSTANTIAL AMOUNTS OF PROMOTIONAL FUNDS TO DEVELOP A MARKET FOR THESE NEW PRODUCTS IN SWEDEN. US FRESH POULTRY IS EXCLUDED FROM SWEDEN BECAUSE OF THE EXISTENCE OF NEWCASTLE DISEASE IN THE UNITED STATES. OUR PRODUCERS THEREFORE CONCENTRATED ON COOKED PRODUCTS AND DEVELOPED THESE NEW TURKEY PRODUCTS WHICH ARE CONSUMED PRIMARILY BY THE INSTITUTIONAL MARKET. WHEN THEY WERE FIRST INTRODUCED, THERE WERE NO SUCH PRODUCTS PRODUCED LOCALLY. FURTHERMORE, THEY MAKE UP ONLY A FRACTION OF ONE PERCENT OF THE SUPPLY OF POULTRY PRODUCTS CONSUMED ANNUALLY IN SWEDEN.

"E. THE NEW TAX NOT ONLY ADDS TO THE INFLATIONARY PRESSURES IN SWEDEN BUT APPEARS TO BE AN UNFORTUNATE EXAMPLE OF TRADE PROTECTIONISM AT A TIME WHEN GATT MEMBERS ARE ABOUT TO COMMENCE MULTILATERAL TRADE NEGOTIATIONS FOR THE PURPOSE OF LIBERALIZING INTERNATIONAL TRADE.

"F. IN VIEW OF THE ABOVE, WE HOPE THAT THE GOVERNMENT OF SWEDEN WILL RECONSIDER THE INCREASE WITH A VIEW TO REMOVING THE TAX OR, IF THIS IS NOT POSSIBLE, LOWERING IT AT LEAST TO THE LEVEL EXISTING IN EARLY 1969. MEANWHILE, WE WOULD APPRECIATE AN EXPLANATION FOR THE GOVERNMENT OF SWEDEN'S DECISION TO UNCLASSIFIED

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IMPLEMENT THIS PARTICULAR TAX INCREASE."

A COPY OF THE TALKING PAPER WAS LEFT WITH BOTH THESE MEN ALONG WITH SUPPORTING DATA, A COPY OF WHICH IS BEING AIRMAILED RUSSEL STROBEL IN FOREIGN AGRICULTURAL SERVICE. IN ADDITION TO ELABORATING THESE FACTS, ECONOMIC COUNSELOR, ON A PERSONAL BASIS, INDICATED THAT THIS TURKEY TAX IS A SENSITIVE ISSUE IN THE US AS JUDGED BY THE CHICKEN WAR, WHICH WAS WAGED WITH THE EUROPEAN

COMMUNITY SOME YEARS AGO.

3. UNDER-SECRETARY OF AGRICULTURE IVAN ECKERSTEN ASSURED EMBASSY OFFICIALS THAT POULTRY TAX WAS NOT AIMED AT RESTRICTING IMPORTS BUT RESULTED FROM A COMBINATION OF (1) REQUIREMENTS IN SWEDEN'S AGRICULTURAL LAW WHICH REQUIRES FARMERS' INCOME TO BE RAISED AS COST OF PRODUCTION AND CONSUMER PRICE INDEX GO UP AND (2) PRICE CONTROLS ON MEAT AND OTHER PRODUCTS. AS TO WHY THE TAX WAS RAISED MORE ON IMPORTED TURKEY THAN ON CHICKENS, HE REPLIED THAT THE LAW REQUIRED THAT CHANGES BE MADE ON THOSE PRODUCTS WHERE THE TAX WOULD BENEFIT FARM INCOME. BROILERS HAD RECENTLY BEEN IN SURPLUS SUPPLY IN SWEDEN AND THEREFORE FARMERS' PRICES WOULD NOT HAVE RISEN IN RESPONSE TO A SUBSTANTIAL INCREASE IN IMPORT TAX. THIS WAS NOT THE CASE WITH TURKEYS, HE SAID. HE REPEATEDLY STRESSED THAT MUCH OF THIS WAS THE RESULT OF TECHNICAL MATTERS RATHER THAN POLICY CHANGES. EMBASSY OFFICIALS' REACTIONS WERE THAT REGARDLESS OF REASONS, ACTION OF GOVERNMENT OF SWEDEN WAS DESTROYING A MARKET WHICH AMERICAN INDUSTRIES HAVE BUILT WITH GOVERNMENT ASSISTANCE. MR. ECKERSTEN ALSO MENTIONED THAT GOS'S ACTION IN QUESTION WAS AN IMPORT LEVY WHICH HAS A SOMEWHAT DIFFERENT STATUS IN INTERNATIONAL PARLANCE THAN DOES AN "IMPORT TAX", WHICH WAS THE TERM USED BY EMBASSY OFFICIALS.

4. MR. LEVIN OF MINISTRY OF COMMERCE LISTENED SYMPATHETICALLY. HE STATED THAT HE WAS NOT WELL INFORMED ON THE SUBJECT MATTER AND THEREFORE WOULD NOT ATTEMPT TO RESPOND IN A SUBSTANTIVE WAY BUT THAT HE WOULD TAKE THE MATTER UP WITH APPROPRIATE AUTHORITIES.

5. AGATT HAS APPOINTMENT WITH CHIEF OF THE LIVESTOCK AND MEAT PRODUCTS DIVISION OF THE AGRICULTURAL MARKETING BOARD WHICH ADMINISTERS THIS LEVY SYSTEM FOR POULTRY AND MEAT PRODUCTS. APPOINTMENTS MAY ALSO BE MADE WITH CONSUMER, FARM, AND IMPORTER

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MEMBERS OF THE MARKETING BOARD WHO ESTABLISH OVERALL POLICY WITHIN AREAS OF DIRCREATION PERMITTED BY THE LAW.

6. COMMENT: IT IS TOO EARLY TO JUDGE EFFECTS OF EMBASSY'S REPRESENTATIONS. GOS IMPORT LEVIES ARE RECONSIDERED EACH SIX MONTHS. NEXT CHANGE WILL BE EFFECTIVE JULY 1. STUDY IS NOW UNDER WAY BY MARKETING BOARD OF WHAT THOSE CHANGES SHOULD BE. THIS BOARD MAKES RECOMMENDATIONS, AND THESE ARE REVIEWED BY GOVERNMENT. IF ACCEPTABLE, THEY ARE SUBMITTED TO PARLIAMENT AND, UPON RATIFICATION, BECOME LAW. THEREFORE ANY CHANGE PRIOR JULY 1 VIRTUALLY IMPOSSIBLE.

SINCE GOS OFFICIALS CONTACTED GAVE PRACTICALLY NO ENCOURAGEMENT, EMBASSY INVITES ADDITIONAL ARGUMENTS ACCOMPANIED BY INSTRUCTIONS TO MAKE ADDITIONAL REPRESENTATIONS. THIS WILL HELP US KEEP THE

ISSUE ALIVE DURING CURRENT POLICY-FORMING PERIOD. WE ARE ALSO
MINDFUL THAT GOS IS NOW PLANNING NEW FARM LEGISLATION.
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